

Legg Mason Martin Currie Real Income

Quarterly Investment Option Update

31 December 2020

Aim and Strategy

To provide a growing income stream by investing in a diversified portfolio of Australian listed real assets (such as A-REITs, utility and infrastructure securities) characterised by established physical assets with recurring cash flows.

The investment manager's approach is premised on the philosophy that high-quality listed real assets can sustain dividends, match rises in the cost of living and are likely to be less volatile than the wider equity market.

The portfolio expects to hold about 20 to 45 securities. At the time of purchasing securities, the portfolio aims to limit exposure to individual securities to 9% of the portfolio and hold cash and cash equivalents of no more than 10% of the portfolio.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au/performance

Investment Option Overview

Investment Category	Property and Infrastructure
Suggested Investment timeframe	3 to 5 years
Relative risk rating	6 / High
Investment style	Diversified Property
Manager style	Single Manager

Sector Allocation	%
Retail REITs	25.4
Diversified REITs	23.0
Electric Utilities	16.0
Office REITs	9.9
Railroads	5.0
Industrial REITs	4.9
Gas Utilities	4.2
Highways & Railtracks	3.8
Cash & Cash Equivalents	2.5
Specialized REITs	2.0

Top Holdings	%
Scentre Group	6.1
Shopping Centres Australasia	5.3
Charter Hall REIT	5.2
Dexus	5.1
Aurizon Holdings Ltd	5.0
Ausnet Services	4.8
Genesis Energy Ltd	4.6
Charter Hall Retail REIT	4.3
APA Group	4.2
Stockland	4.1

Asset Allocation	Benchmark (%)	Actual (%)
Listed Property and Infrastructure	100	97.46
Cash	0	2.54

Portfolio Summary

- At the sector level, real estate was the largest contributor to the portfolio's performance, followed by utilities, while infrastructure detracted.
- Scentre Group, SCA Property Group, and Genesis Energy were the largest positive contributors.
- Aurizon Holdings, Charter Hall Long Wale REIT and AGL Energy were the biggest detractors.
- The portfolio trimmed its the positions in AGL Energy and Vicinity Centres.

Investment Option Commentary

The Portfolio was up in the December quarter. At the sector level, real estate was the largest contributor to the portfolio's performance, followed by utilities, while infrastructure detracted.

At the stock level, Scentre Group, SCA Property Group, and Genesis Energy were the largest positive contributors, while Aurizon Holdings, Charter Hall Long Wale REIT and AGL Energy were the biggest detractors.

Shopping centre landlord Scentre Group had been heavily impacted by the COVID-19 crisis due to its exposure to higher-end discretionary retail, but the REIT bounced back strongly on the re-opening theme due to improving shopping centre foot traffic. Supermarket landlord SCA Property Group performed well over the quarter, with the Group's September quarter update highlighting a strong balance sheet and showing improving cash collection rates driven by robust tenant sales. SCP re-assured investors with dividend guidance that matched consensus expectations, with DPS growth flagged on 1H21, noting that 92% of its tenants were open and trading.

New Zealand utilities Genesis Energy and Contact Energy were solid performers over the quarter. The Labour Party's decisive election win means the Government is well positioned to deliver on its election promise to help smooth the exit impacts of Rio Tinto's Tiwai aluminium smelter mooted closure. Given the smelter represents approximately 12.5% of New Zealand's power consumer, Genesis Energy and Contact Energy are both beneficiaries of the smelter remaining open.

Rail group Aurizon Holdings was impacted by weak coal port volumes over the quarter, with Chinese import restrictions on Australian coal posing headwinds. However, the Manager note that Aurizon's yield remains attractive and strong power demand in Asia over recent months should see better volumes ahead.

While REITs with exposure to the re-opening theme were strong, they saw COVID-safe names that have performed well recently, such as Charter Hall Long WALE REIT, lag during November's recovery.

Electricity and gas retailer AGL Energy fell after downgrading its earnings guidance for FY21 following the company's transformer incident at its Liddell Power Station in New South Wales.

Market Commentary

The Australian real asset universe underperformed the broader Australian equity market in the December quarter.

The listed real estate market was up 13.2% in the December quarter (as measured by the S&P/ASX 300 A-REIT Accumulation Index). Infrastructure was up 3.6% in the December quarter (as measured by the S&P/ASX Infrastructure Accumulation Index). Utilities were down -5.4% in the December quarter (as measured by the S&P/ASX 300 Utilities Accumulation Index).

In comparison, the Australian equity market rose 13.7% in the December quarter (as measured by the S&P/ASX 200 Accumulation Index).

Outlook

Despite COVID-19 disruptions, utilities such as gas pipelines and electricity grids face less risk, as they satisfy basic household needs and remain extremely defensive, with recent increases in household consumption delivering solid results.

As COVID-19 restrictions ease, they are seeing toll road traffic data rapidly improving, with commuters showing a preference for private transport ahead of shared transport. Airport passenger recoveries are expected to take much longer and they see business travel negatively impacted long-term due to the significant uptake and success of video conferencing.

Online retail continues to win share of the retail pie, but on the other side of this crisis dual 'clicks and mortar' retail solutions look best placed to meet customer needs and have done well through the crisis.

Availability

Product Name	APIR Code
AMP Flexible Super - Super	AMP1795AU
AMP Flexible Super - Retirement	AMP1789AU
CustomSuper	AMP1819AU
Flexible Lifetime - Super	AMP1819AU
Flexible Lifetime - Allocated Pension	AMP1813AU
SignatureSuper	AMP1807AU
SignatureSuper - Allocated Pension	AMP1801AU

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